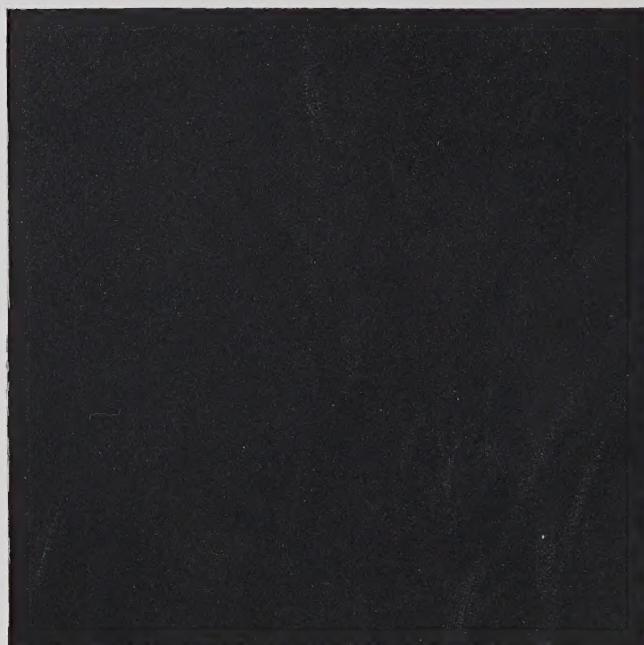




OAKWOOD '79
ANNUAL REPORT

OAKWOOD PETROLEUMS LTD.

Incorporated under the laws of Canada on November 28, 1925 and continued under the Canada Business Corporations Act July 17, 1978. The Company is authorized to issue an unlimited number of common shares of which 4,854,677 shares are issued and outstanding. The Company is also authorized to issue an unlimited number of preferred shares none of which has been issued to this date.



ANNUAL MEETING OF SHAREHOLDERS

Annual General Meeting of Shareholders of Oakwood Petroleum Ltd. will be held in the Jasper Suite of the Calgary Inn in the City of Calgary, Alberta at the hour of 10:00 A.M. Local Time June 17, 1980. A formal Notice of Meeting of Shareholders together with an instrument of Proxy and Information Circular is being mailed to the shareholders concurrently.



OAKWOOD
ANNUAL REPORT '79

OAKWOOD PETROLEUMS LTD.

DIRECTORS

DALLAS E. HAWKINS II,
Spokane, Washington, U.S.A.
Chairman of the Board and
President of the Company
Chairman of the Board of
American Eagle Petroleum Ltd.

*BRIAN S. EKSTROM,
Calgary, Alberta
Vice-President of the Company
Treasurer of American Eagle
Petroleum Ltd.
President of Brian Ekstrom
Management Ltd.

KENNETH W. GERMOND,
Calgary, Alberta
Vice-President
of the Company

*R. ROSS HAMILTON,
Calgary, Alberta
President of Great Basins
Petroleum Co.
President of Scotaire
Exploration Ltd.

RICHARD D. JENSEN,
Calgary, Alberta
Executive Vice-President
of the Company

GERHARD KASDORF,
Calgary, Alberta
Vice-President of the Company
and President of
American Eagle Petroleum Ltd.

BRIAN G. McCOMBE,
Calgary, Alberta
Partner, McCombe Cameron

*EDWARD G. McMULLAN,
Calgary, Alberta
President of E. G. McMullan Ltd.

GEORGE OUGHTRED,
Calgary, Alberta
President of Commercial Oil and
Gas Ltd.

*audit committee

OFFICERS

DALLAS E. HAWKINS II,
Chairman of the Board and
President

RICHARD D. JENSEN,
Executive Vice-President

BRIAN S. EKSTROM,
Vice-President, Finance

KENNETH W. GERMOND,
Vice-President, Exploration

GERHARD KASDORF,
Vice-President, Production
and Operations

BRIAN G. McCOMBE,
Secretary

SENIOR PERSONNEL

WAYNE R. COOPER
Office Manager

DONALD A. McQUAIG
Field Supervisor

JOHN M. PARTRIDGE
Controller

RUSSELL W. RIES
Operations Manager

G. JACK ROMANOSKI
Land Manager

HEAD OFFICE
2700 Shell Centre
400 - 4th Avenue S.W.
Calgary, Alberta T2P 0J4

SUBSIDIARY COMPANIES

OAKWOOD INTERNATIONAL
PETROLEUM N.L.
OAKWOOD PETROLEUM
CORPORATION
OAKWOOD PETROLEUMS
(IRELAND) LTD.
OAKWOOD PETROLEUMS
ITALIANA S.P.A.

OAKWOOD RESOURCES LTD.
OAKWOOD RESOURCES, INC.
HURON RESOURCES
MANAGEMENT LTD.

BAYVIEW OIL & GAS LTD.
BUENO OILS LTD.
FLAMINGO OILS LIMITED (N.P.L.)

AMERICAN EAGLE PETROLEUMS
LTD.
AMERICAN EAGLE PETROLEUMS,
INC.
GULL OIL & GAS LTD.

BASSET OIL LTD.*
CORONADO CONSULTANTS
LTD.*
LOCHABER OIL CORPORATION
LTD.*
MARWOOD PETROLEUM LTD.*
ORIENT INVESTMENTS LTD.*

SHARES LISTED
The Toronto Stock Exchange

BANKERS
The Bank of Montreal
Calgary, Alberta
Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Illinois and
Toronto, Ontario

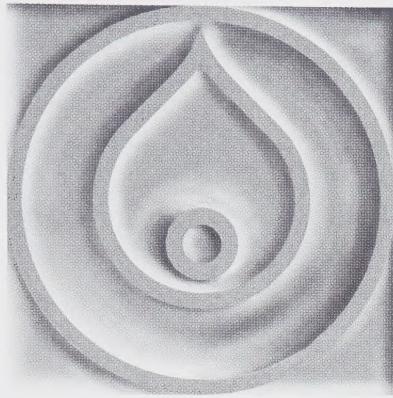
AUDITORS
Thorne Riddell
Calgary, Alberta

REGISTRAR
Canada Trust Company,
Calgary, Alberta

TRANSFER AGENTS
Canada Trust Company,
Calgary, Alberta
and Toronto, Ontario
Bank of Bermuda Limited,
Hamilton, Bermuda

* now in voluntary liquidation

HIGHLIGHTS 1979



PRODUCTION STATISTICS

	1979	1978	1977	1976	1975
Crude Oil and Natural Gas Liquids (bbls)					
— gross	1,480,182	323,000	230,454	204,345	161,182
— net	954,364	171,190	182,059	161,433	127,334
Daily Average (bbls)					
— gross	4,055	885	631	560	442
— net	2,615	469	499	442	349
Natural Gas (mmcf)					
— gross	5,307	3,080	3,034	1,907	1,318
— net	3,724	1,848	2,002	1,259	870
Daily Average (mmcf)					
— gross	14.5	8.4	8.3	5.2	3.6
— net	10.8	5.1	5.5	3.4	2.4
SALES & EARNINGS (000's \$)					
Crude Oil & Natural Gas Sales	\$ 18,590	\$ 6,018	\$ 4,411	\$ 2,595	\$ 1,429
Funds provided by					
Operations	8,445	3,334	2,011	994	655
Per Share	\$ 1.74	.69	.44	.23	.18
Earnings (Loss)					
for the year	(2,069)	934	557	73	(101)
Per Share	(.43)	.20	.12	.02	(.03)
LAND HOLDINGS					
Oil & Gas Lease & Permit Acres					
Gross acres	8,407,524	8,442,443	2,350,069	1,265,318	1,042,102
Net acres	1,180,677	1,140,267	303,859	221,048	163,053
Mining Claims & Exploration					
Gross acres	28,638	9,416	9,416	66,664	65,898
Net acres	3,172	787	787	6,666	6,451
NET RESERVES					
Oil and Condensate, Barrels					
Proven	*26,064,163	2,981,998	1,688,000	1,640,000	1,016,000
Probable	185,954	68,272	742,000	695,000	320,000
TOTAL	26,250,117	3,050,270	2,430,000	2,335,000	1,336,000
Natural Gas, mmcf —					
proven and probable	160,612	127,978	59,255	44,596	28,490
Indicated Sandhills Gas Reserves, mmcf (net of royalty)	138,000	103,000	103,000	103,000	103,000

*Reserves as at July 1, 1979

CHAIRMAN'S REPORT TO THE SHAREHOLDERS

In keeping with management's growth policy, 1979 was an outstanding year for your Company. While we are proud of our largest and most successful exploration and development program ever, the majority of our growth was achieved through the acquisition of Basset Oil Ltd. which added over 22 million (net of royalty) barrels of oil to our reserve inventory. This purchase combined with those concluded in the recent past has given Oakwood the facility to mount and maintain a dual emphasis on both exploration and acquisition programs.

Excluding consultants, Oakwood Petroleums Ltd. now has a total complement of 58 employees all of whom are dedicated to the task of finding and managing energy resources in Canada and abroad. This growth in our staff from 31 last year and 15 just two years ago, more than any other statistic serves to demonstrate our continuing growth in size, diversity and ability. We are confident that our depth in personnel combined with our continued enhancement of cash flow will make possible our aspirations for additional growth in 1980 and beyond.

This year Oakwood generated a cash flow of nearly \$8.5 million from total revenues of approximately \$19.5 million. Despite these new records in revenue and cash flow, we sustained an earnings loss of over \$2 million. While this downturn is not expected to reoccur, our 1979 performance can be attributed to unusually high interest rates and substantial provisions for deferred taxes and depletion. We have no control over the required depletion and deferred tax allocation but we have taken remedial measures with respect to interest charges. As stated in the financial section, your management consummated a long term favourable fixed rate loan in January of this year. This facility funded in both Canadian and U.S. dollars bears interest at just over 11%. In contrast to the maximum interest rates which were common place just weeks ago, this borrowing arrangement could theoretically save \$7 million in interest charges over the ensuing year. We are, of course, unable to predict future interest rates on bank borrowings and are therefore unable to forecast actual savings. We are, however, confident that this fixed rate facility will serve us well over its 16½ year term.

As reported in previous years, your Company has been involved in seismic evaluation work in various locations throughout the world. For the most part, results of this work are encouraging. Drilling is slated to commence in late 1980 on our Australian lands.

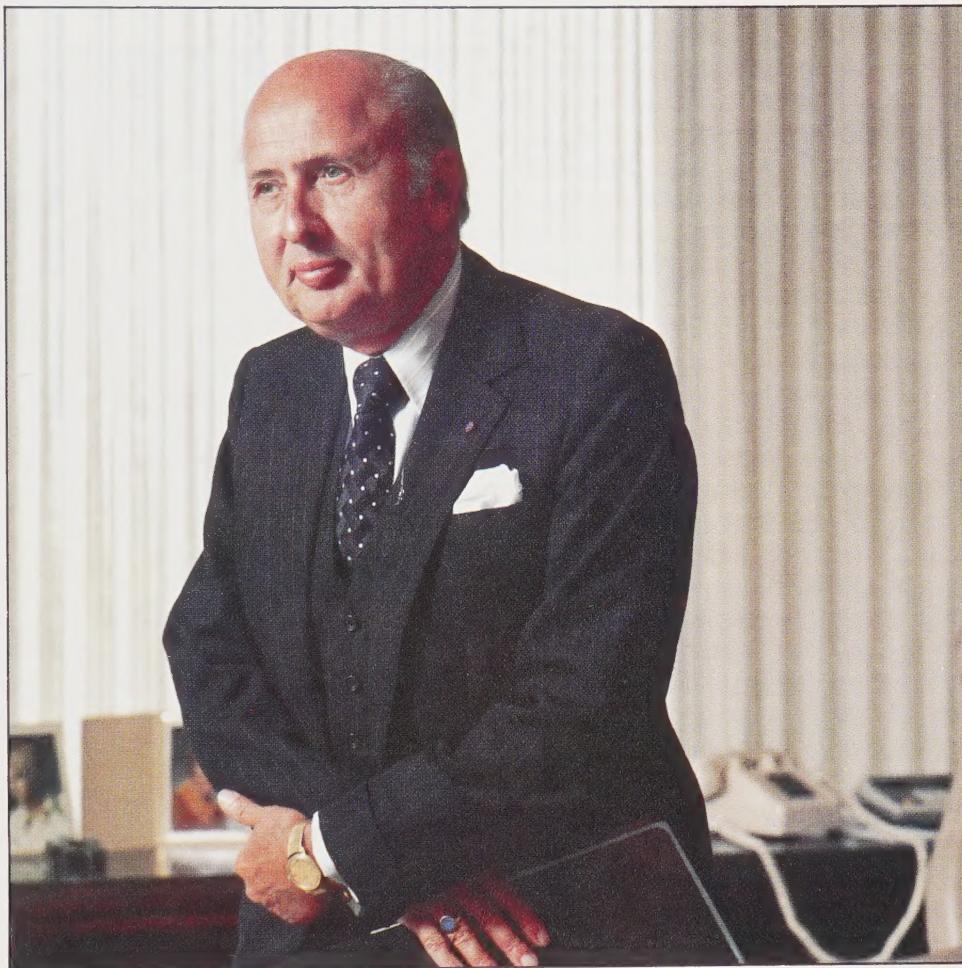
A new subsidiary, Oakwood International Petroleum N.L., has been formed. This company incorporated in New South Wales, Australia, will enter into an underwriting agreement in Australia for the purpose of selling approximately one-third of its issued capital to the Australian public. It is anticipated that sale of these shares will raise Australian \$6 million, largely for use in Australia. Oakwood International will be our vehicle for future world-wide exploration, excluding Canada and the United States.

As a condition of the underwriting, your Company's management has agreed to transfer to Oakwood International all of the issued shares of Oakwood Petroleum Corporation, our U.S. subsidiary, together with Oakwood's interest in the Australian, Seychelles and German North Sea permit areas. Ongoing North American activity will, of course, continue in Canada as in the past. We have also incorporated a new U.S. subsidiary, Oakwood Resources Inc., which will handle all future activity in that country.

Although there are as yet unresolved pricing problems between various jurisdictions in Canada, we are assuming that the national objective of energy self sufficiency will ultimately prevail, thus resulting in a pricing formula which will continue to encourage development and ownership of Canadian energy resources.

Failure to resolve this seemingly perpetual problem will only serve to further frustrate sensible exploration and development decisions thereby delaying Canada's return to energy self sufficiency.

It will be noted that this year's slate of directors does not include Mr. Jack Wahl who has recently taken up residency outside of Canada and has resigned from the Oakwood Board of Directors. We shall always be grateful for the outstanding contributions made by Mr. Wahl to Oakwood and we wish to extend to him our very best wishes in his new surroundings. We also extend our continued thanks to our shareholders for their confidence both in Oakwood and its dedicated employees.



Dallas E. Hawkins II
President & Chairman

EXECUTIVE VICE PRESIDENT'S REPORT

The corporate strategy of Oakwood Petroleums Ltd. can best be illustrated by the achievements realized during the year under review. While we continue to broaden our efforts to include a strong emphasis on exploration, this growth has been made possible through an acquisition program which will continue to be employed as a means of developing financial flexibility and exploration ability.

We propose to direct a substantial portion of anticipated cash flow to exploration areas of interest in Canada and the United States. Accordingly, we are obliged to evaluate and purchase undeveloped acreage when it becomes available. Mounting land costs coupled with continued escalations in drilling costs demand more than ever, the development of revenue at the lowest possible cost. There is little doubt that our ability to realize these, our exploration aspirations, have been, and will be largely dependent on our acquisition and financing capabilities.

In March 1979, your Company concluded the second stage of the Shenandoah Oil Corporation asset purchase. This acquisition for an aggregate consideration of \$47 million (Oakwood's share

\$23.5 million) was shared by two other Canadian companies and was first initiated in 1978. The acquired interests included various oil and gas properties located in British Columbia, Alberta, Saskatchewan, and Ontario. Completion of the transaction added net land holdings to Oakwood of 65,000 net acres under some 761,000 gross acres largely located in Alberta and British Columbia. Simultaneously Oakwood's reserves net after royalty were increased by 46.8 billion cubic feet of gas and 181,000 barrels of liquid hydrocarbons.

In June 1979, Oakwood agreed to purchase all of the issued shares of Basset Oil Ltd. for \$80 million and various adjustments. With initial financing arranged by way of a bank loan, the transaction was closed in July, 1979.

This acquisition resulted in your Company obtaining interests in some 68 oil and service wells located in the Grand Forks area of Southeastern Alberta, having net after royalty reserves of 22.4 million barrels. Gas reserves of approximately 14.4 billion cubic feet were acquired in the transaction and were subsequently sold for \$9.2 million. Initial gross production levels of approximately 4,000 barrels per day have now been enhanced to some 6,500 barrels per day and further improvement is contemplated upon



the completion of wells subsequently drilled, and the installation of improved production facilities. Bow River Pipe Lines Ltd. has increased its crude oil handling capacity to accommodate the increased production expected to occur throughout the balance of 1980 and beyond.

In July 1979, Sundance Oil Canada Ltd. agreed to sell a 90% net profits interest previously acquired from Oakwood in early 1978. This original purchase highlighted in our 1977 annual report, included all of the Western Canadian producing and non-producing properties of The Consumers' Gas Company. In order to finance the original purchase, which totalled \$20.1 million, Oakwood sold to Sundance a net profits interest on all acquired properties for approximately \$18 million. As a result of the repurchase consummated this past summer for \$14.5 million, Oakwood now has full ownership of all producing properties but still remains a 10% co-venturer in the undeveloped acreage originally acquired from The Consumers' Gas Company. Purchase of the net profits interest, did however, add net reserves after royalty of 77 thousand barrels and 22.8 billion cubic feet of natural gas.

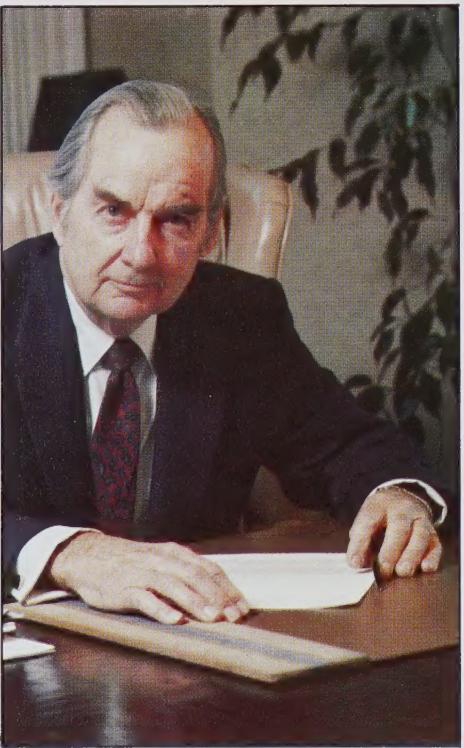


In summation, the foregoing major acquisitions of 1979 added net reserves of 22.7 million barrels and 69.6 billion cubic feet of gas to Oakwood's reserve inventory. The transactions enumerated above include a wide mix of asset and stock purchases. They include undeveloped acreage as well as producing properties and in some instances shut-in gas properties were obtained in the respective packages. Accordingly, it would be imprudent to attempt a rigorous cost analysis relative to the reserves acquired. We are, however, generally satisfied that our net cost is in the order of \$3 per net barrel equivalent, well in keeping with traditional finding costs, common place and escalating at a perilous rate throughout Western Canada.

In our view, our acquisition philosophy combined with our ability to finance has and should continue to play a dominant role in establishing new reserves and cash flow for your Company.

RICHARD D. JENSEN
Executive Vice President

EXPLORATION & LAND



For the past two years, Oakwood has conducted its exploration drilling in Canada utilizing a drilling fund as its vehicle, serving as the General Partner in a Limited Partnership arrangement. Both years are considered to have been successful ventures for all the partners involved. In 1979, Drilling Fund No. Three was involved in the drilling of 24 exploratory holes, eleven of which were completed as potential gas wells. This compares with the 1978 Fund No. One which participated in 18 gross wells, eight of which were successful. Drilling Fund No. Two, aligned with Fund No. One, participated in 1979 in the successful completion of seven development wells at Alderson. Oakwood's management decided that the Company would explore in 1980 as a single entity, so as to analyze the economic benefits through comparison.

The Company was highly selective as to the areas of emphasis for both exploration and development drilling during

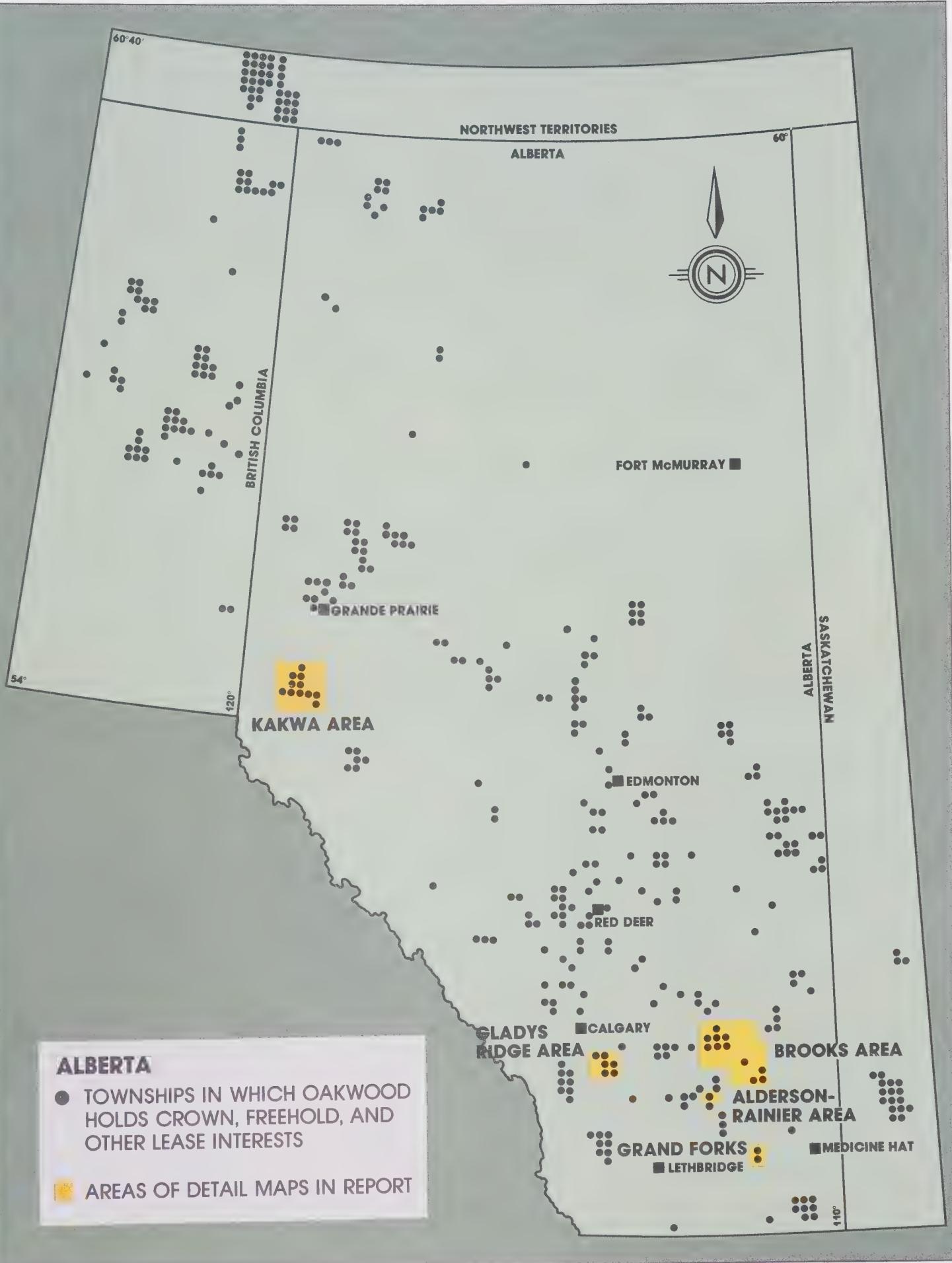
the year. Economics dictate that further exploitation in gas prone areas having no foreseeable market is prohibitive unless there are lease expiry problems such as at Kakwa. Two areas of emphasis in 1978 were at Sexsmith and Clairmont in Western Alberta. No further work was carried out in 1979 and no work is programmed for 1980. At Island River-Trout Lake, Northwest Territories, exploration work in 1979 amounted to only planning for a probable exploratory drilling program in the 1980-1981 winter season.

LAND ACTIVITIES

Acquisition of Petroleum and Natural Gas Acreage via the vehicle of competitive bidding at Governmental sales was given emphasis during the year. The Company participated in some 38 sales in Alberta and British Columbia, partnering with both major and independent companies. Successful tenders were made on 47,321 gross acres of P&NG rights (18,800 hectares) resulting in a net increase to the Company's acreage portfolio of 6815 acres (2726 hectares). This represented a ten-fold increase in the Company's involvement in this mode of land acquisition and set a trend being carried forth in the current year.

The Company continues to be aggressive in its pursuit of joint venture participation through farm-in and has maintained a willingness to pursue this posture in its exploration philosophy resulting in company involvement in several highly potential areas in Alberta and British Columbia.

As is evident from the property distribution plat depicting the Company's principle holdings, Oakwood's land inventory encompasses representation in ever-increasing areas and in areas of ever-increasing industry interest.



OAKWOOD PETROLEUMS LTD., AND SUBSIDIARIES, OIL AND GAS RIGHTS HELD AT JANUARY 1, 1980

	GROSS ACRES	NET ACRES
CANADA		
Alberta	1,145,637	149,096
Saskatchewan	279,082	71,324
British Columbia	213,806	23,797
Manitoba	480	60
Northwest Territories	756,350	128,124
Yukon	37,696	1,571
Ontario	7,396	2,980
	2,440,447	376,952
UNITED STATES		
Montana	85,939	5,667
Texas	28,383	2,975
Kansas	4,852	303
California	955	527
Kentucky	1,033	258*
	121,162	9,730
FOREIGN		
German North Sea	98,842	2,111
Seychelles Islands	847,073	105,884
Western Australia	4,900,000	686,000
	5,845,915	793,995
Total	8,407,524	1,180,677

As of January 18, 1980 the Company acquired 753,404 gross (18,246 net) acres offshore Labrador in the Hopedale area.

* In addition to the above interests, the Company has an overriding royalty interest in 15,130 gross acres in Kentucky.

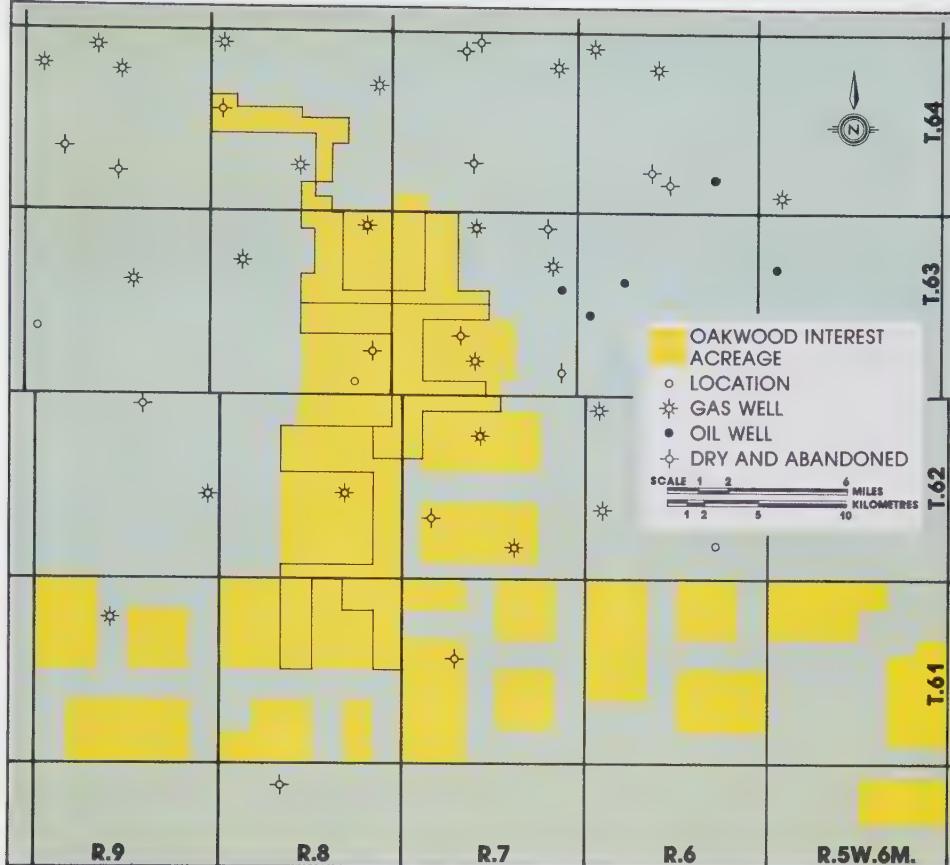


KAKWA AREA

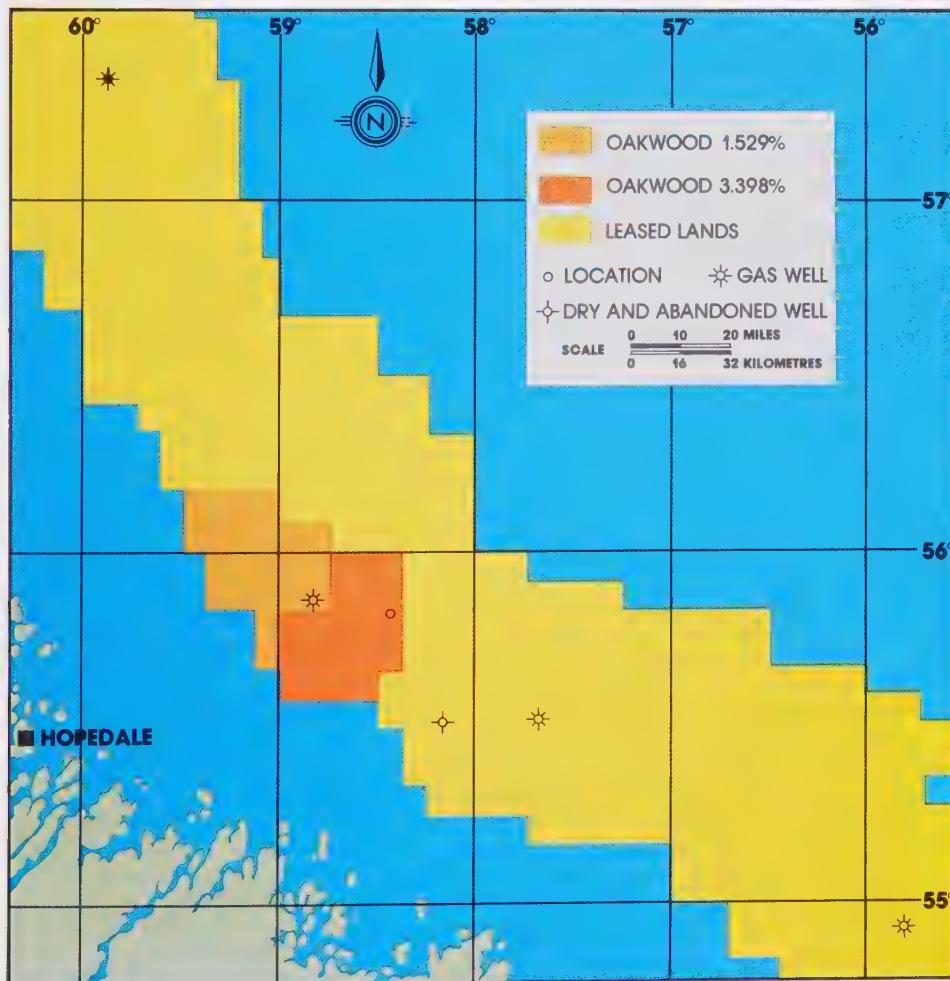
The exploratory drilling program carried out across the Kakwa acreage spread met with considerable success. The previously reported 3418 metre abandonment was followed by the completion of five successful gas wells, each located on different leases in the north two thirds of the block. During the drilling of these wells, The Company participated in the acquisition of three contiguous Petroleum and Natural Gas licences generally occupying the corridors between the various lease blocks upon which have been drilled the five gas wells. These acquisitions required the Company to spend \$490,000 to acquire its 2.5% interest under 27,680 acres at an average cost of \$708 per acre. The Company now has a lease interest under 114,000 acres within ten contiguous townships.

The 1980 drilling program is progressing, two new wells having been spudded. The first is a one kilometre evaluation stepout to a previous discovery and the other is a 3900 metre Fernie exploratory well located two kilometres southwest of the 1978 abandonment. Consideration is being given to the drilling of five additional exploratory tests with the possibility of the 1980 program being expanded by the addition of two further wells. It is anticipated that with the activity on the lands in which the Company is involved and by other operators to the east and north, negotiation of gas purchase contracts will soon be justified.

KAKWA AREA



NEWFOUNDLAND OFFSHORE — LABRADOR



HOPEDALE AREA

Oakwood acquired on January 18, 1980 a 50% interest in American Eagle's acreage position under its Hopedale exploratory block located offshore 60 miles east of the Labrador coastline. The Company now owns 18,246 net acres under the 753,404 acre block, being an average 2.42% interest. In 1978, Chevron Standard Limited drilled a 2,073 metre exploratory discovery well in the centre of the block, earning a 55% interest in the west half of the acreage spread. Chevron has indicated to the present owners that it will exercise its option to earn a like interest in the east half of the block by drilling a second exploratory well thereon and has chosen a location for a 3,912 metre basement test at a site lying approximately 24 kilometres southeast of the original wet gas discovery well. Operations will commence when a drill ship is available.

EAST TEXAS JURASSIC COTTON VALLEY LIME TREND

Activity involving development and evaluation stepout drilling along the Jurassic trend continued at a steady rate throughout the year. The Company participated in five drilling operations, all of which were successful ventures. The Jurassic Cotton Valley Lime has proven to be the most dependable and economically attractive pay zone of the several different zones proven and completion in each of the five wells was within this zone. At year end twelve wells were producing gas on a restricted basis, two were being completed, and five locations were being readied for drilling during the first half of 1980.

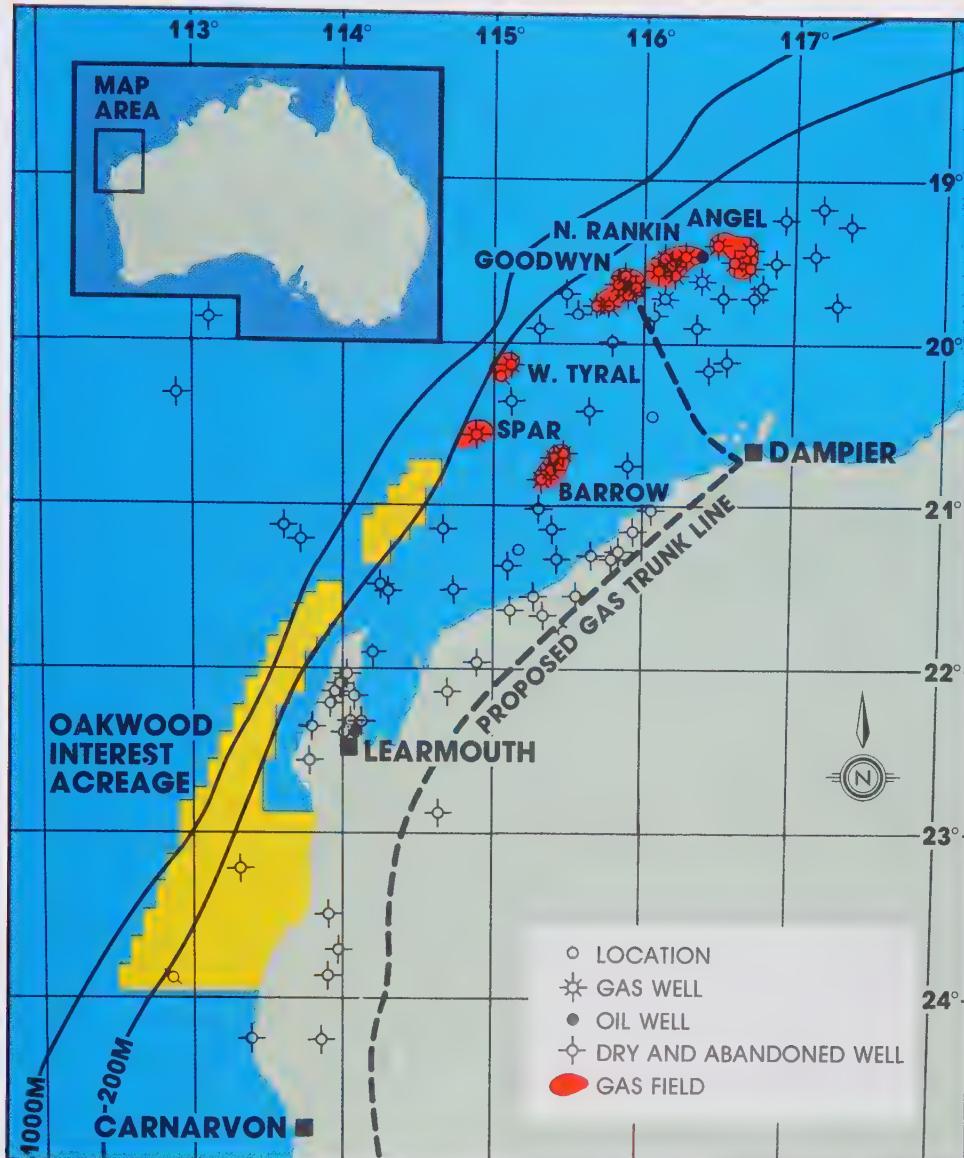
Gas marketing has improved but it is still not at the anticipated maximum level. Delays in well connections and in an overloaded gathering system prevail. It is hoped that such problems will be corrected during the year.

One of the small interest partners that joined Oakwood in 1978 in evaluating the trend was forced to withdraw from the venture at the end of 1979. Oakwood considered it prudent to re-assume this small working interest and so will be involved in a one-sixth larger share in the remaining development activities. It is anticipated that the Company will participate in seven additional evaluation tests along the trend during 1980. During the first five months of 1980, two wells have been drilled and completed, one is drilling, and four are approved.

EAST TEXAS JURASSIC TREND



NORTH WESTERN AUSTRALIA



AUSTRALIA

Oakwood and its partners during 1979 closely re-evaluated the earlier seismic work done on the two permits comprising the 4,900,000 acre position in the offshore Carnarvon Basin of Western Australia. In support of the structural information developed, the team conducted a 340 kilometre in-fill marine seismic survey principally in the vicinity of an outstanding structural anomaly located on the team's lands at the north end of Permit WA 102-P. No further seismic work was done across Permit WA 110-P. Due to the extreme shortage of seismic ships in the area, all programs have been delayed and shortened and it has been necessary to request governmental extensions to work

periods, all of which have been granted. Data processing and subsequent mapping have been completed and the team is contemplating the drilling of an exploratory well on Permit WA 102-P. The Tantibiddi structure is located 32 kilometres offshore Northwest Cape; the well would be drilled to a depth of 3100 metres below sea floor in water having a depth of 800 metres.

The Company has developed a strong interest in the oil and gas opportunities in Australia as a result of its activities and studies of the continent. Oakwood has created an Australia subsidiary and stock equity is to be offered to the public. This will allow the new company to seek out additional exploration and development opportunities in Australia and to

more actively participate in a broader exploration program. The opportunities in Australia are considered to be most attractive from an exploration and economic viewpoint and it is anticipated that during 1980 the Company's activities will be more aggressive than in previous years.

THE SEYCHELLES ISLANDS

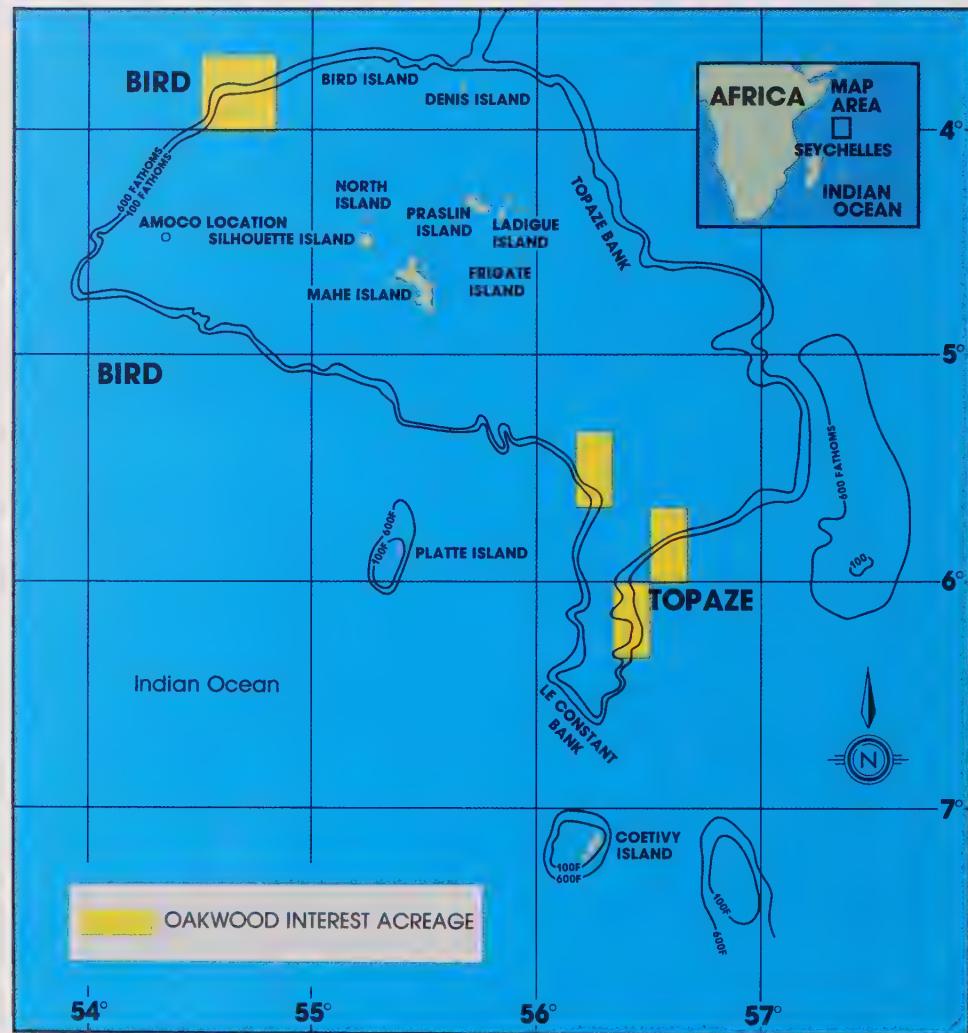
The Company's activities across the Seychelles Banks during 1979 consisted of refining of the existing seismic interpretation. Due to the shortage of marine seismic ships a projected program of a further 100 kilometre seismic data acquisition was unavoidably postponed until April 1980, at which time it was possible to combine the team's requirements with a new program being shot by a major oil company in the immediate area. The new data involves several previously known anomalies under the Topaze acreage.

As a result of the delays in shooting the new lines, the Government of the Republic of Seychelles has granted commitment date

extensions so that the team will be able to integrate the latest information before considering a drilling program.

Amoco Petroleum is presently involved in the drilling of the first exploratory well on the Seychelles Bank at a location approximately 278 kilometres northwest of the Topaze block. It is not anticipated that any data from the drilling operation will be readily available but the fact that the hole has been continuously drilled and the time spent on location by the drill ship assuredly indicates that a normal sequence of sediments is being encountered. The team's drilling commitment does not have to be made until December 1, 1980, thus allowing maximum time for consideration of all data available.

SEYCHELLES



1980

An aggressive exploration program is well under way for the current year. No effort is being made to divide the allocated exploration budget as to the United States and Canada, but it presently appears that the Company may well spend at least half its efforts in the United States where oil is being marketed at world level prices and proven gas is in demand. In the Williston Basin area of Montana, Wyoming, North Dakota and South Dakota, the Company has joined a group in a commitment to drill nine deep exploratory oil prospects based on detailed seismic or subsurface data. The first well of the program is located in North Dakota and is being completed as a potential Ordovician oil well. The second, located in Montana, is drilling ahead toward its projected total depth of 12,700 ft. The other seven wells will be spaced throughout the year. Another highly potential endeavour has been undertaken with an equal interest partner in southwestern New York as a result of the Project Penny announced by Columbia Gas Transmission Company. The team has available to it approximately 35,000 acres along the Silurian Medina Sandstone trend. Four wells have been drilled and cased but none have yet been completed. It is anticipated that the team will drill at least ten wells during the year if the first four wells are satisfactorily tested. Two leasing programs involving the Company are under way in the southern states, one in the Anadarko Basin of Oklahoma, and another in the deep Austin Chalk trend of south Texas. There should be drilling opportunities for the Company in each instance.

In Western Canada, the Company has been active in both Alberta and British Columbia, having participated in three seismic surveys and ten exploratory holes to date. Coupled with an active lease acquisition philosophy, the year promises to be one of numerous exposures in the exploration for new oil and gas reserves.



PRODUCTION AND OPERATIONS

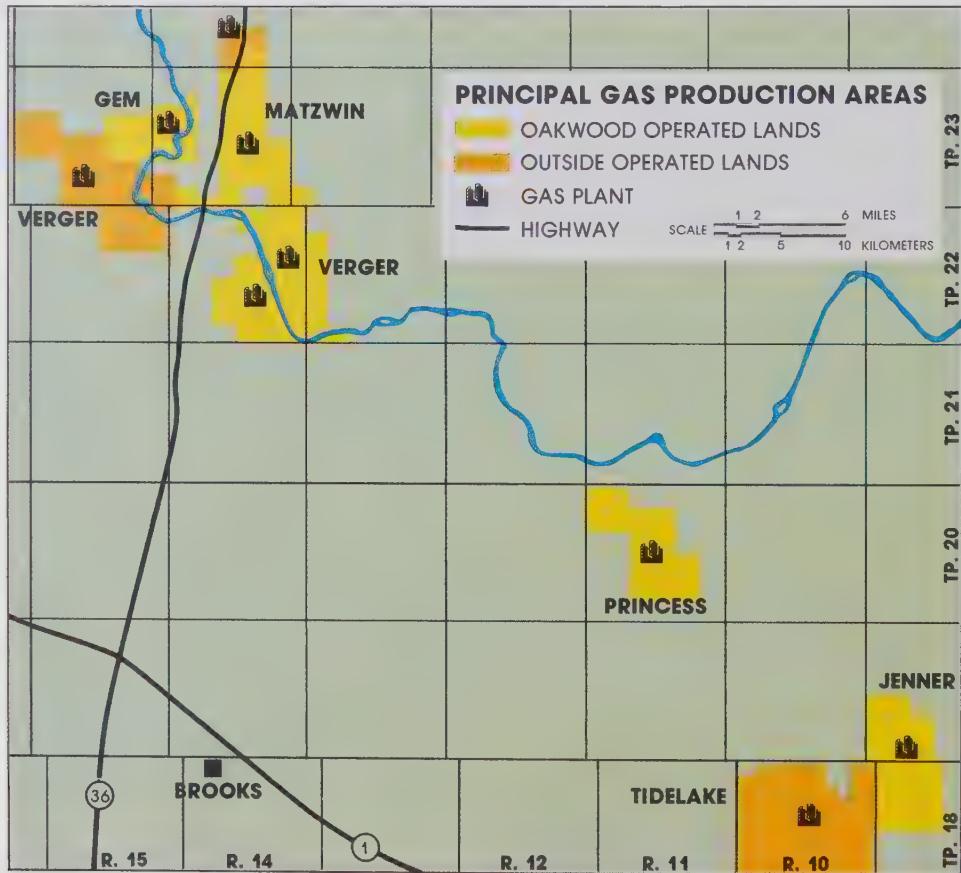


During 1979 your Company's oil reserves increased by 88.6% and gas reserves by 20.4%. The large increase in oil reserves can be attributed mostly to the acquisition of Basset Oil Ltd. which added approximately 23 million net barrels of oil. Part of the

increase is also attributable to a very active and successful drilling program. Oakwood and its wholly owned subsidiaries participated in the drilling of 109 wells of which only 28 were dry and abandoned. Of the 81 wells completed, 18 were oil wells and 62 were gas wells, while one was completed as dual zone oil and gas well.

Oakwood's daily oil production averaged 4055 bbls. during 1979. Much of the increase from the 1978 average production rate of 885 bbls. per day can be attributed to the acquisition of Basset Oil Ltd. However, since the acquisition was made during the second half of 1979, the full effect is not reflected in the yearly average. When the Basset properties were acquired, production averaged approximately 3800 bbls. per day to Basset's account. Production from the Basset properties has increased to approximately 6000 bbls. per day to Oakwood's interest. This increase has been obtained by increasing choke sizes, installing larger pumping units and adding additional facilities at the batteries. By mid 1980, it is anticipated that

BROOKS AREA



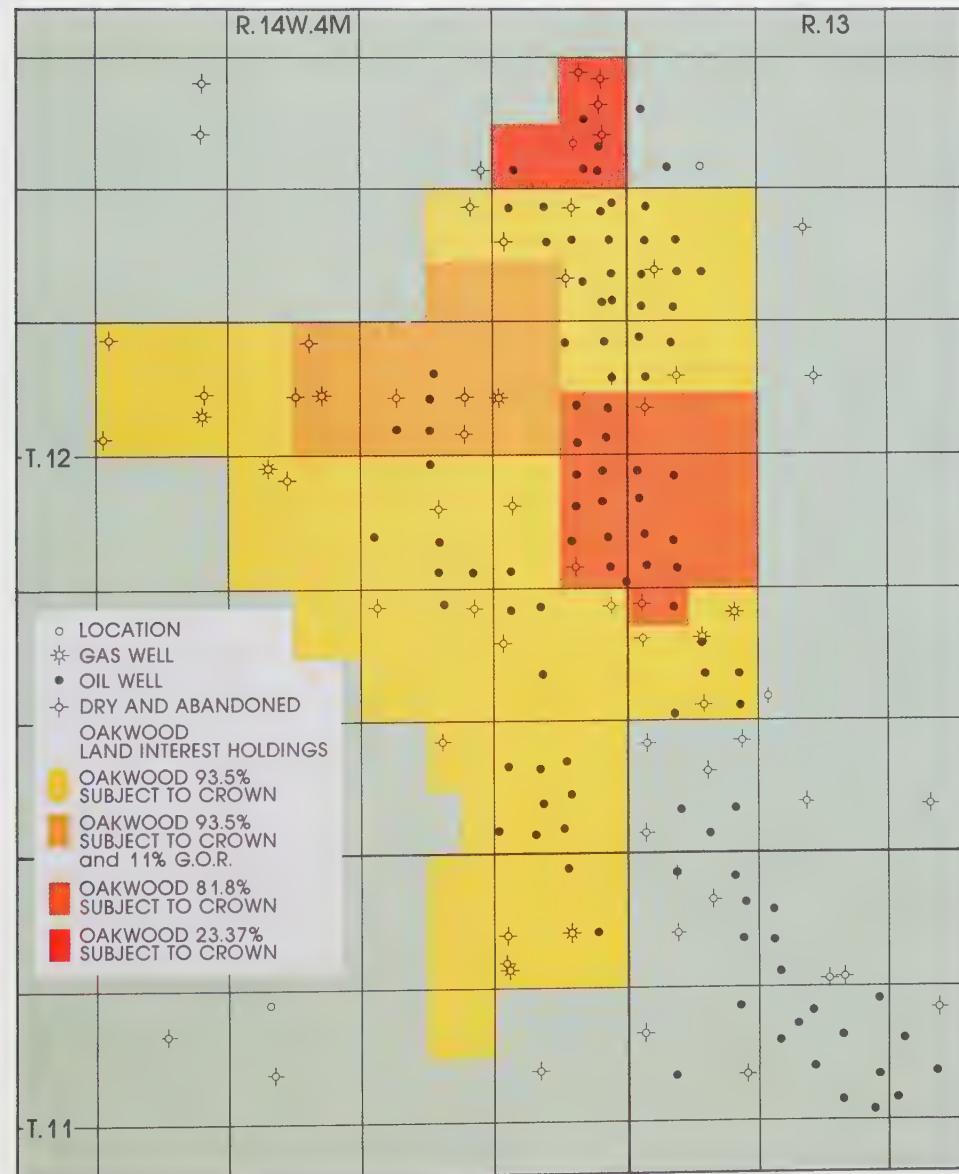
production can be increased to 9500 bbls. per day. This production rate is anticipated when the two new batteries under construction are placed on production and the nine wells drilled during the first four months of 1980 are placed on production. These wells will not only provide the projected production rate of 9500 bbls. per day, but have also added additional reserves. The acquisition of Basset Oil Ltd. has also made it necessary for Oakwood to maintain a field office at Grand Forks. Oakwood has four full time employees located at this office to supervise production operations and monitor the pressure maintenance program. The daily pumping operations are presently being handled by contract operators.

Activity across the multi-pay Gladys Field led to the drilling of six new tests in 1979, five of which were completed as oil wells from the Cretaceous and one was dry and abandoned. Oakwood participated in the drilling of three of the oil wells. Studies as to the potential size of the pool continue and the team of which the Company is operator has acquired considerable new seismic data from others as well as actually shooting approximately 35 miles of detail control across anomalous trends and features. Final processing and interpretation has not been completed, however, it is believed the team will be involved in more than one evaluation step-out or exploratory well during 1980.

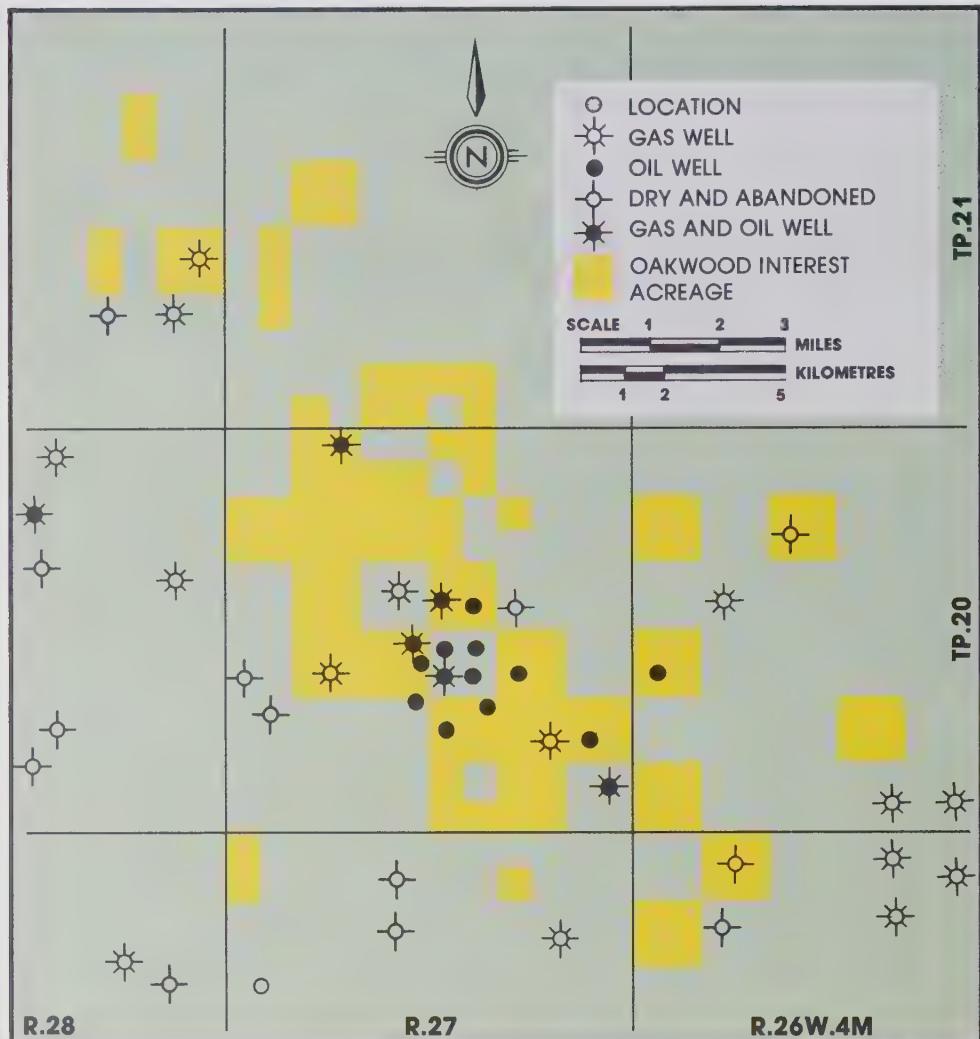
The Alberta Energy Resources Conservation Board has specified that gas reserve and plant feasibility studies for the Okotoks-Gladys Ridge area be prepared and submitted for future planning of gas production from the reserves. Oakwood and others participated in the reviews and it is anticipated that hearings will be held to enable the various producers to get their respective gas to plants and to market. The Company is of the opinion it has economic, viable gas reserves from the Devonian-Crossfield zone, the Mississippian and Basal Cretaceous zones and from the shallow Belly River zones.

Development of the Company's acreage within the Alderson Glauconitic Sand oil pool has added two more oil wells and two gas wells to the total of eight potentially productive wells. There are presently six oil wells and two gas wells in the inventory. One dry hole was drilled on the northeast flank, establishing a probable shut-off in that direction. South of the acreage in which Oakwood has its 12 $\frac{1}{2}$ % working interest, the offset lease owner has now completed four oil wells and two gas wells, expanding the pool to 14 capable wells. The Company is to participate in the immediate drilling of at least two evaluation step-outs on the east flank of the pool. Daily oil production from wells in which Oakwood has a working interest amounts to 316 barrels. There is no market for new found gas in the area, accounting for the lack of a follow-up to the Rainier 10-29 gas well.

GRAND FORKS AREA

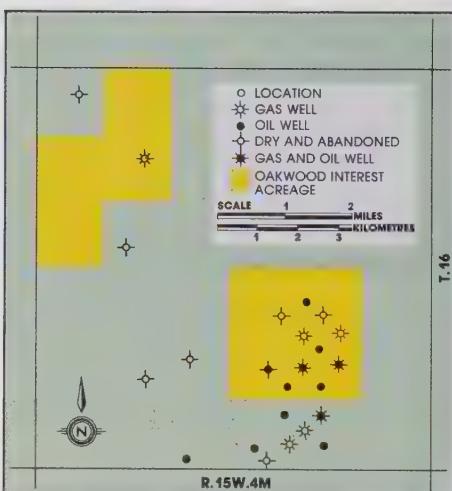


GLADYS RIDGE AREA



The Company's gas production increased from 8.4 Mmcf/d in 1978 to 14.5 Mmcf/d in 1979. This increase is partially due to a full year's production from the properties purchased in November 1978 from Shenandoah Oil Corporation. However, part of the increase is also due to a very active infill drilling program conducted during 1979 in Matziwin, Verger, Tide Lake and Jenner areas. A total of 32 wells were drilled and completed in these areas during the year. The wells were drilled, fraced and tied into existing gas plants to provide sufficient capacity to maintain existing contracts. With the addition of these wells, 23 of which were operated by Oakwood, the Company's operated wells in the Brooks area has increased to 214. Plans are already under way to drill 25 more infill wells in these areas during 1980.

ALDERSON-RAINIER AREA



NET RESERVES COMBINED U.S. & CANADIAN PROPERTIES

	Oil (bbls)	Gas (mmcf)	NGL (bbls)
Proved (1)	26,064,163	158,147	56,706
Probable (2)	185,954	8,352	271
Proved plus Probable	26,250,117	166,499	56,977

BEFORE TAX CUMULATIVE CASH FLOW (\$'000)

	Un- discounted	Discounted @ 12%	Discounted @ 15%	Discounted @ 20%
Proved (1)	781,186	286,158	243,982	195,086
Probable (2)	19,450	4,724	3,667	2,494
Proved plus Probable	800,636	290,882	247,649	197,580

The foregoing proven plus probable reserves are metrically converted to:

4,179,954 m³ cubic meters of oil

4,691,000,000 cubic meters of natural gas

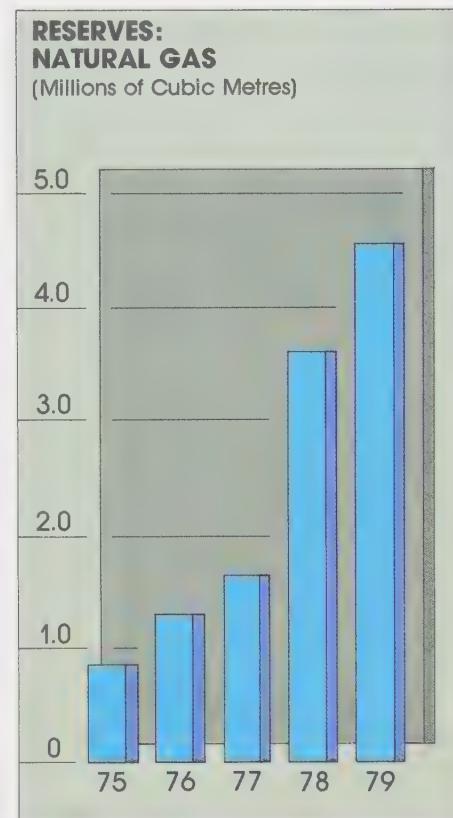
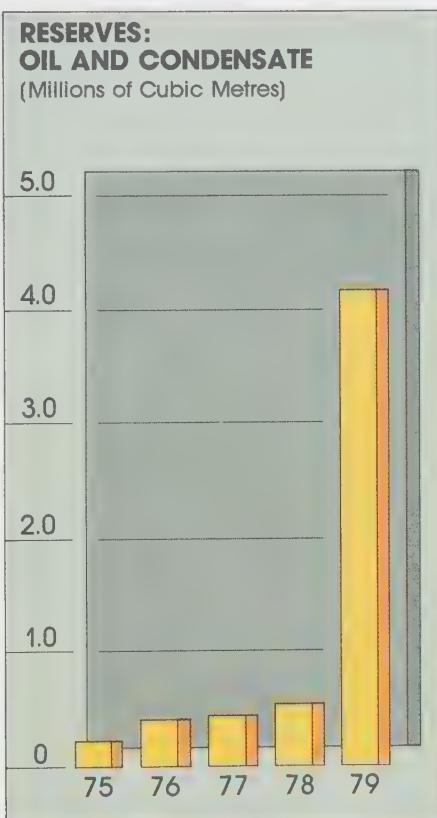
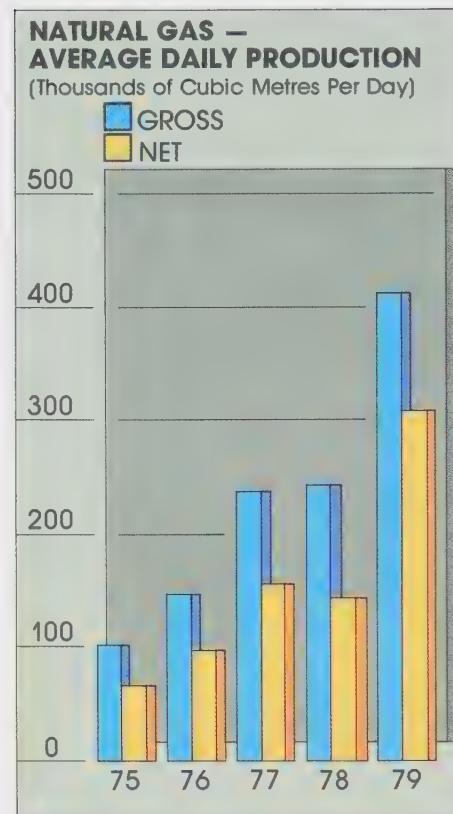
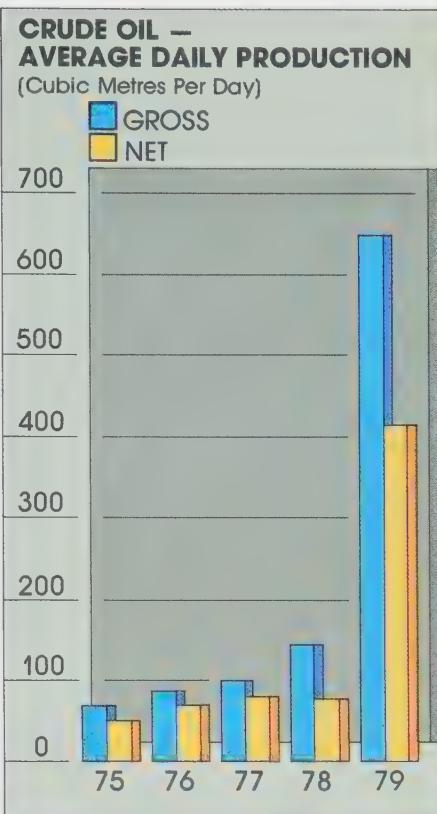
9,043 m³ cubic meters of natural gas liquids



The operation of the 214 Oakwood operated wells in the Brooks area and the seven gas plants are under the direct supervision of our Brooks Field Office which was opened in June of 1979. The Brooks office is staffed by twelve full time Oakwood employees. The change from contract operators to Oakwood personnel has resulted in a much more efficient operation and increased production.

With the addition of field offices in Grand Forks and Brooks, Oakwood's Production and Operations staff now totals 28. This includes twelve employees in our Head Office in Calgary.

Our Company and industry in general, share a concern with respect to the disposition of shut-in gas. Oakwood has contracted most of its shut-in gas to Pan-Alberta Gas Ltd. The areas that have been contracted are Wildmere, Buff Coulee, Beauvallon, Jarvie-Goodrich, Gladys, Rainbow, Dina and Wainwright. Providing Pan-Alberta can meet all the requirements under the National Energy Board's export permit, production could commence from the first four areas by March 1981. Production from the last four areas will start in November 1981. In order to meet this time schedule, Oakwood has under order various compressors and other necessary equipment. Additional drilling in these areas will also be necessary to meet the deliverabilities under these contracts.



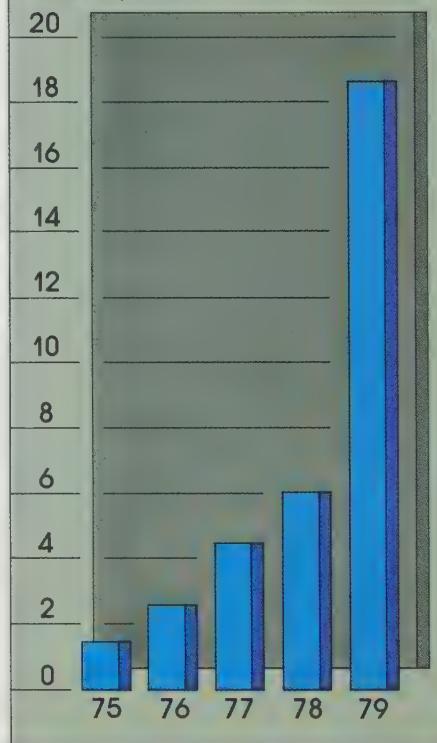
FINANCIAL REVIEW

As is depicted graphically in this report, 1979 was a year of unparalleled growth for Oakwood in terms of operating revenues and cash flows. In 1979 total revenues exceeded 19.4 million dollars as compared to 6.3 million dollars for the 1978 fiscal year, a growth rate of approximately 210%. Cash flow from operations exceeded \$8,400,000 — an increase of approximately 150% from the 3.3 million dollars cash flow of 1978. These two indicators point out clearly the impact of the acquisition program of proven and producing properties which your Company has been following during the past few years, and as mentioned in last year's Annual Report. In addition of course, as mentioned earlier in this report, during 1979 your Company made probably its most significant acquisition ever in the purchase of Basset Oil Ltd. This acquisition which resulted in the expenditure of approximately \$81,000,000, and was completed on July 31, 1979 did yield some positive impact to the Company's reported earnings and operations for the year 1979. However the full impact of the purchase will not really become obvious until 1980 as the properties formerly owned by Basset Oil Ltd. become more effectively exploited by Oakwood. Unfortunately, rising interest costs during 1979 had a severe negative impact on Company earnings, with a reported net loss of \$2,068,530 for the year as compared to a reported profit in 1978 of approximately \$900,000. This of course was after recognizing in excess of \$11,000,000 in interest charges relative to the Company's long-term debt incurred in funding the Basset purchase mentioned above as well as prior years' acquisitions. On January 31, 1980, the Company successfully completed a long-term fixed rate financing arrangement which yielded your Company approximately \$100,000,000, and carrying an effective interest rate of 11.2% over the next sixteen years. This refinancing, coupled with the convertible preferred share issue which is presently

being finalized, will have a most significant positive impact on 1980 reported earnings and cash flows. The issuance of the convertible preferred shares also significantly improves Oakwood's debt — equity ratio relative to the December 31, 1979 position as shown in the accompanying financial statements.



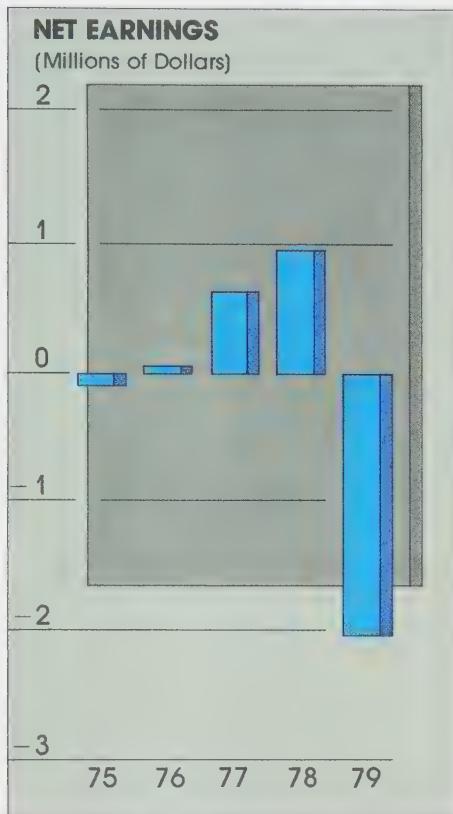
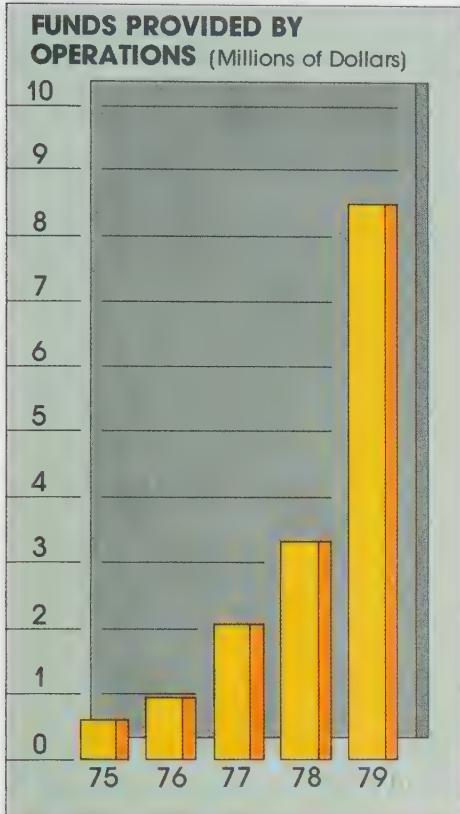
CRUDE OIL AND NATURAL GAS SALES (Millions of Dollars)



STOCK PRICE

The following table indicates the quarterly high bid and low prices for the common stock of the Company on the Toronto Stock Exchange.

	1980	1979	1978
First Quarter	\$ 25.75	\$ 13.50	\$ 7.13
Second Quarter			\$ 4.50
Third Quarter		13.75	5.88
Fourth Quarter		16.13	3.40
	17.25	10.13	5.00
		11.00	3.85
			4.90
			3.37



To the Shareholders of
Oakwood Petroleums Ltd.

AUDITORS' REPORT

We have examined the consolidated balance sheet of Oakwood Petroleums Ltd. as at December 31, 1979 and the consolidated statements of earnings, deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting as described in note 2, on a basis consistent with that of the preceding year.

Calgary, Canada
April 15, 1980

Thorne Riddell
Chartered Accountants

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1979

	1979	1978
		(note 2)
ASSETS		
CURRENT ASSETS		
Cash and term deposits	\$ 5,490,056	\$ 5,306,884
Accounts receivable		
— trade	12,211,802	5,860,706
— sale of property (note 3)	4,149,250	974,597
Receivable from related companies	409,093	—
Income taxes recoverable	6,234,837	—
	28,495,038	12,142,187
INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD. (note 4)	2,217,971	2,401,357
PROPERTY AND EQUIPMENT, at cost (note 5)	158,078,698	45,930,523
Accumulated depletion and depreciation	19,580,074	10,007,890
	138,498,624	35,922,633
OTHER ASSETS	785,360	506,134
	\$169,996,993	\$50,972,311

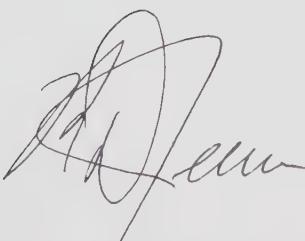
LIABILITIES

CURRENT LIABILITIES		
Bank indebtedness	\$ —	\$ 1,530,113
Accounts payable and accrued liabilities	13,537,111	6,769,258
Income taxes payable	—	70,475
Current maturities on long-term debt	—	112,500
	13,537,111	8,482,346
LONG-TERM DEBT (note 6)	141,021,959	33,698,394
DEFERRED INCOME TAXES	10,799,173	2,385,521

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 7)		
Authorized		
Preferred shares without nominal or par value, issuable in series		
Common shares without nominal or par value		
Issued		
5,450,011 Common shares		
(5,373,611 in 1978)	10,353,794	10,052,564
CONTRIBUTED SURPLUS	768,152	768,152
DEFICIT	11,121,946	10,820,716
	(5,798,561)	(3,730,031)
	5,323,385	7,090,685
Less 595,334 Common shares held by wholly-owned subsidiary company	(684,635)	(684,635)
	4,638,750	6,406,050
	\$169,996,993	\$50,972,311

Approved by the Board



Director



Director

CONSOLIDATED STATEMENT OF EARNINGS

YEAR ENDED DECEMBER 31, 1979

	1979	1978 (note 2)
Revenue		
Sale of oil and gas	\$ 18,589,913	\$ 6,017,942
Interest and other	874,824	300,798
	19,464,737	6,318,740
Expenses		
Production	3,067,475	1,552,536
General and administrative	1,882,015	947,003
Interest on long-term debt	11,081,085	1,440,925
Other interest	240,079	238,937
Depletion and depreciation	4,953,197	1,372,101
	21,223,851	5,551,502
Earnings (loss) before the under noted	(1,759,114)	767,238
Gain on sale of property	—	864,753
Share of loss of American Eagle Petroleum Ltd.	(183,386)	(116,330)
	(183,386)	748,423
Earnings (loss) before income taxes	(1,942,500)	1,515,661
Income taxes (note 3)		
Provincial royalty tax credit	(1,285,853)	(357,479)
Current	(3,998,268)	50,580
Deferred	5,410,151	888,322
	126,030	581,423
NET EARNINGS (LOSS)	\$ (2,068,530)	\$ 934,238
EARNINGS (LOSS) PER SHARE	\$ (0.43)	\$ 0.20

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 31, 1979

	1979	1978
BALANCE AT BEGINNING OF YEAR		
As previously reported	\$ (3,473,840)	\$ (4,212,637)
Adjustment resulting from change in accounting policies (note 2(a))	(256,191)	(451,632)
As restated	(3,730,031)	(4,664,269)
Net earnings (loss)	(2,068,530)	934,238
BALANCE AT END OF YEAR	\$ (5,798,561)	\$ (3,730,031)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1979

	1979	1978
WORKING CAPITAL DERIVED FROM		(note 2)
Operations (note 3)	\$ 8,445,212	\$ 3,333,669
Proceeds on sale of property and equipment	14,207,294	1,907,061
Increase in long-term debt	107,954,544	25,300,671
Issue of common shares	301,230	23,090
Other assets	309,912	18,900
	131,218,192	30,583,391
WORKING CAPITAL APPLIED TO		
Investment in acquired subsidiary ...	82,344,613	—
Less working capital acquired	5,343,489	—
	77,001,124	—
Additions to property and equipment	41,688,478	23,611,323
Reduction of long-term debt	630,979	757,239
Other assets	599,525	502,005
	119,920,106	24,870,567
INCREASE IN WORKING CAPITAL	11,298,086	5,712,824
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF YEAR	3,659,841	(2,052,983)
WORKING CAPITAL AT END OF YEAR	\$ 14,957,927	\$ 3,659,841

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1979

1. ACCOUNTING POLICIES

(a) CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned.

Acquisitions of subsidiaries are accounted for by the purchase method and, accordingly, only earnings or losses from the date of acquisition are included in the consolidated statement of earnings.

The excess of the consideration paid for shares of subsidiary companies over the book value of their net assets at dates of acquisition is included in property and equipment in the consolidated balance sheet and is amortized on the same basis as such assets, or is deducted from shareholders' equity to the extent of the carrying value of the Company's shares held by the purchased company.

(b) INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD.

The investment in American Eagle Petroleums Ltd. is recorded on the equity basis. The investment therefore includes the Company's share of undistributed earnings since acquisition and the consolidated statement of earnings includes the Company's share of net earnings for the year. The excess of the consideration paid for shares of American Eagle over the book value of its net assets at dates of acquisition has been assigned to property and equipment and is amortized on the same basis as such assets.

(c) PETROLEUM AND NATURAL GAS OPERATIONS

The Company follows the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing property,

costs of drilling both productive and non-productive wells, and related overhead expenses. Such costs, net of proceeds from minor disposals of property, are accumulated and depleted on a country by country basis (except for frontier areas of Canada which are considered separate cost centres), using the unit of production method based upon estimated proven developed reserves as determined by the Company's engineers. In calculating depletion, natural gas reserves are converted to equivalent units of crude oil based on the relative energy content of each product.

Gains or losses are recognized upon the sale or disposition of properties when the petroleum and natural gas reserves of those properties are significant in relation to the Company's total reserves in the particular cost centre.

All of the Company's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

(d) DEPRECIATION

Depreciation of petroleum and natural gas production equipment and related facilities is provided on the unit of production method based upon estimated proven developed reserves as determined by the Company's engineers.

Depreciation of other property and equipment is provided on a straight-line basis over the estimated life of each asset at annual rates varying from 10% to 20%.

(e) INCOME TAXES

The Company follows the tax allocation method of accounting under which the income tax provision is based on earnings reported in the consolidated financial statements. Accordingly, the Company makes full provision for income taxes deferred as a result of claiming capital cost allowances and exploration and development costs in excess of the amount provided for depreciation and depletion in the consolidated financial statements.

No deduction for income tax purposes is allowed for interest on the Company's income debentures (see note 6) which is included in interest on long-term debt expense in the consolidated statement of earnings.

(f) FOREIGN CURRENCIES

The accounts of foreign subsidiaries are translated into Canadian dollars on the following basis:

(i) current assets and liabilities, at the rate of exchange as at the balance sheet date;

(ii) all other assets, depletion and depreciation, and non-current liabilities, at rates prevailing when the assets were acquired or the liabilities incurred;

(iii) revenue and expenses, except depletion and depreciation, at the average rate in effect during the period.

Unrealized gains or losses resulting from such translation practices are capitalized as part of property and equipment and are amortized in accordance with policies outlined in notes 1(c) and (d). Realized gains or losses are reflected in earnings.

(g) DEFERRED CHARGES

Financing charges related to long-term debt are included in other assets in the consolidated balance sheet and are amortized on a straight-line basis over the term of the related debt.

2. CHANGE IN ACCOUNTING POLICIES

(a) PETROLEUM AND NATURAL GAS OPERATIONS

Prior to 1979, the Company followed the practice of capitalizing the acquisition costs of both producing and non-producing properties and charging the costs to earnings if the property was subsequently surrendered. The cost of drilling a productive well was capitalized and the cost of a non-productive well was charged to earnings when the well was determined to be dry. The costs of producing leases and development thereon were amortized using the unit of production method based upon estimated quantities of oil and gas as determined by the Company's engineers.

Prior to 1979, depreciation of production equipment and related facilities was calculated on a straight-line basis using the annual rate of 10%.

In 1979, the Company adopted, on a retroactive basis, the full cost method of accounting for petroleum and natural gas operations, as outlined in note 1(c), and the unit of production method of depreciating production equipment and related facilities, as outlined in note 1(d).

The effect of this retroactive change is to increase previously reported net earnings for 1978 by \$195,441 (\$.05 per share) and decrease the loss by \$1,223,000 (\$.026 per share) for the year ended December 31, 1979.

(b) INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD.

Effective January 1, 1977 the accounts of American Eagle Petroleums Ltd. were consolidated because management considered that to be the more informative presentation. The excess of the consideration paid for shares of American Eagle over the book value of its net assets at dates of acquisition was included in property and equipment in the consolidated balance sheet and was amortized on the same basis as such assets.

In 1979, the Company adopted, on a retroactive basis, the equity basis of accounting for its investment in American Eagle, as outlined in note 1(b). This change, which does not affect net earnings, was made in accordance with accounting recommendations of the Canadian Institute of Chartered Accountants, which recommendations were revised in 1979 to exclude the consolidation of companies other than subsidiaries.

3. ACQUISITION OF BASSET OIL LTD.

Effective June 1, 1979, the Company acquired all the issued shares of Basset Oil Ltd. The net assets acquired and values assigned thereto are as follows:

	Net Book Value	Increase to Fair Value	Cash Consideration
Property and equipment	\$ 9,148,084	\$70,002,727	\$79,150,811
Working capital	5,296,795	46,694	5,343,489
Deferred income taxes	14,444,879	70,049,421	84,494,300
Net assets acquired	3,003,500	—	3,003,500
	<u>\$11,441,379</u>	<u>\$70,049,421</u>	<u>81,490,800</u>
Acquisition expenses			853,813
Total consideration			<u>\$82,344,613</u>

Effective August 1, 1979, the Company sold to officers and directors of the Company certain of the petroleum and natural gas properties so acquired for \$4,149,250, which amount was equal to their fair value at the date of acquisition of Basset. The amount was received by the Company in February 1980, together with interest thereon at prime plus 2%.

Subsequent to the acquisition of Basset, the Company completed certain property transactions which resulted in the recovery of current income taxes of \$4,223,000 which amount had been expensed by Basset prior to the date of acquisition. This amount is included in working capital derived from operations in the consolidated statement of changes in financial position. There is no effect on net earnings as deferred income taxes have been increased by an amount equal to the current income taxes recovered.

Intercompany transactions completed subsequent to the acquisition of Basset resulted in income and related deferred income taxes of approximately \$33 million. Such income and taxes are eliminated on consolidation. No portion of such taxes will become payable prior to 1982; if they become payable they are not anticipated to have an effect on future net earnings of the Company.

4. INVESTMENT IN AMERICAN EAGLE PETROLEUMS LTD.

At December 31, 1978 and 1979 the Company effectively controlled American Eagle Petroleums Ltd. through ownership of 2,030,623 shares (42.25% interest; 44.19% in 1978).

	1979	1978
Shares, at cost	\$3,066,458	\$3,066,458
Share of losses since acquisition	(848,487)	(665,101)
	<u>\$2,217,971</u>	<u>\$2,401,357</u>

The aggregate quoted market value of the shares at December 31, 1979 was \$7,614,836 (1978, \$4,467,371). The quoted market value is not necessarily indicative of the amount which may ultimately be realized on this investment.

5. PROPERTY AND EQUIPMENT

	1979	1978
	Accumulated Depletion and Depreciation	Net
	Cost	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon	\$ 156,786,383	\$ 34,968,859
Other property and equipment	1,292,315 215,876	953,774
	\$ 158,078,698	\$ 35,922,633

6. LONG-TERM DEBT

	Interest Rate	Maturity Date	Payment Terms	1979	1978
Term note	Prime +2%	December 1, 1987 (repaid January 31, 1980)	Principal and interest totalling net production proceeds from certain petroleum producing properties payable monthly	\$ 79,920,354	\$ —
Demand production bank loans	Prime +3/4%			22,500,000	10,428,828
Term note	Prime +1%	June 1, 1985	Payable out of production proceeds \$50,000 monthly in 1979 escalating to \$416,700 monthly in 1985	19,550,000	5,000,000
Income debentures	1/2 Prime + 1 1/4%	January, 1987	\$541,667 quarterly commencing January 1981	13,000,000	13,000,000
Income debentures	1/2 Prime +3%	October 15, 1993 (October 1983 or 1988 at option of the holder)	Annual sinking fund payments of \$400,000 required 1982 to 1992 and \$600,000 in 1993; redeemable after October 15, 1980	5,000,000	5,000,000
Prepayments under gas sales contracts				1,051,605	382,066
				141,021,959	33,810,894
Less current maturities included in current liabilities				—	112,500
				\$ 141,021,959	\$ 33,698,394

The long-term debt of the Company is secured by certain petroleum and natural gas properties. The bank indebtedness is also secured by accounts receivable and shares of American Eagle. The term notes are also secured by floating charges on all other assets of the Company.

The demand production bank loans and the term notes are repayable out of future production proceeds and are not expected to require the use of existing working capital. Accordingly, no portion of such loans has been reclassified to current liabilities.

On January 31, 1980, the Company received \$99,075,000 in long-term debt financing, through the issue of the following notes which are secured by certain petroleum and natural gas properties:

10.90% Series B Senior Secured Notes, payable \$ 1,230,000 U.S.	
June 15, 1984 and \$2,430,000 U.S. semi-annually thereafter,	
maturing June 15, 1995 (\$55,000,000 U.S.)	\$64,075,000
11-7/8% Series A Senior Secured Notes, payable \$770,000	
June 15, 1984 and \$1,565,000 semi-annually thereafter,	
maturing June 15, 1995	35,000,000
	<u>\$99,075,000</u>

Net proceeds of approximately \$98,125,000, after deducting estimated costs of issuance of \$950,000, were used to retire the term note outstanding at December 31, 1979 of \$79,920,354 and reduce the demand production bank loans.

At December 31, 1979 the estimated principal payments on long-term debt within each of the next five years, after reflecting the effects of the Senior Secured Notes financing referred to above, are approximately as follows: 1980 — \$1,500,000; 1981 — \$4,666,000; 1982 — \$6,067,000; 1983 — \$7,067,000; 1984 — \$14,184,000.

7. CAPITAL STOCK

(a) AUTHORIZED

In 1979, the authorized number of preferred and common shares was changed to unlimited from 1,000,000 and 7,000,000 respectively.

(b) ISSUED

Changes in the issued capital stock for the years ended December 31, 1978 and 1979 are as follows:

	Number of Shares	Carrying Value
Balance December 31, 1977	5,367,611	\$ 10,029,474
Issued for cash pursuant to share option agreements	6,000	23,090
Balance December 31, 1978	5,373,611	10,052,564
Issued for cash pursuant to share option agreements	76,400	301,230
Balance December 31, 1979	5,450,011	<u>\$ 10,353,794</u>

(c) SHARE OPTIONS

At December 31, 1979, 272,100 common shares have been reserved for issuance to directors, officers and employees as follows:

Number of Optioned Shares	Option Price	Expiry Date
77,500	\$ 4.17	January 26, 1981
85,600	4.05	September 7, 1983
109,000	12.49	November 20, 1984
272,100		

(d) Dividend Restriction

Payment of dividends on common shares is subject to approval by the holders of certain of the Company's long-term debt.

8. COMMITMENTS

(a) The aggregate rentals payable to the expiry dates of the long-term operating leases which the Company has entered into for office space, net of recoveries from sub-lessees, amount to \$4,304,614. Future minimum lease payments, net of recoveries, for each of the next five years are as follows: 1980 — \$ 181,700; 1981-1984 — \$396,800.

(b) The Company has contracted for the use of drilling rigs. At December 31, 1979, the aggregate minimum standby charges, net of recoveries from third parties, are as follows: 1980 — \$1,336,400; 1981 — \$1,757,800; 1982 — \$633,500.

9. STATUTORY INFORMATION

In 1979, the Company and its subsidiaries paid \$7,600 to the Company's nine directors in their capacity as directors and \$372,073 to five officers of the Company, all of whom are also directors.

